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annual report 1976

brenda

BRENDA MINES LTD.

noranda group

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

[illegible]

OFFICERS

[illegible]

MINE OFFICE: P.O. Box 420, Peachland, B.C.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
701 West Georgia Street, Vancouver, and
20 Eglinton Avenue W., Toronto, Ontario.

ANNUAL MEETING: May 5, 1977, 11:30 a.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Earnings

Net earnings were \$5,490,000 or \$1.28 per share compared with a restated \$2,606,000 or \$0.61 per share in 1975. The fourth quarter earnings increased significantly to \$2,221,000 as a result of the molybdenum price increase of \$0.25 in December to U.S. \$3.45 per pound.

Effective Tax Rates and Earned Depletion

The statutory tax rates applicable to Brenda's income for 1976 were Federal Income Tax 27%, Provincial Income Tax 15%, B.C. Mineral Resource Tax 14.87% for a combined rate of 56.87%. As Brenda's major capital expenditures were incurred prior to November 7, 1969 they are not eligible for allowances and the earned depletion bank which it has built up since then is accordingly small, with the result the lower rates of effective tax will not prevail for very long.

Income and Resource taxes were up \$2,803,000 and \$1,202,000, respectively. The total tax of \$6,305,000 for 1976 equates to \$1.47 per share.

Dividends

An initial interim dividend of 13¢ per share was declared on November 10, 1976.

The Anti-Inflation Board regulations limit the amount of the company's dividends in the second compliance period, October 14, 1976 to October 13, 1977, to 25% of 1974 earnings, equivalent to 49¢ per share over the twelve months. The directors anticipated establishing a dividend of 13¢ per share on a quarterly basis but will have to adjust it slightly downward to comply with the current Anti-Inflation Board regulations.

Financial and Cost Comments

With reference to the financial statements, the increase in value of receivables and inventories at December 31, 1976 was mainly the result of higher prices for copper and molybdenum. The estimated realizable prices for copper and molybdenum concentrates in inventory were \$0.61 and \$3.40 per pound respectively, compared with \$0.51 and \$2.50 at December 31, 1975. Capital expenditures for the year were \$1,692,000, the major item being the purchase of a used 15-cubic yard electric shovel. Short term borrowings arranged to meet cash operating requirements were repaid during the year. Commencing with the 1975 filing of tax returns, Brenda has changed the method of valuation for metal inventories from estimated realizable value to the lower of cost or market for tax purposes only. This change means that the company will not pay tax on unrealized profits. The 1975 comparative figures have been restated to adjust for the change in royalties and to conform to the 1976 presentation.

The increase in the gross value of concentrates produced was due to higher copper and molybdenum prices, which averaged \$0.638 for copper and \$3.22 for molybdenum, compared with \$0.535 and \$2.48 per pound in 1975. This was partially offset by reduced volume as the accountable copper was lower by 1,187,000 pounds and molybdenum by 439,500 pounds compared to 1975.

Smelter and distribution charges decreased overall by \$176,000 due to lower volume and marketing cost. However, major cost increases over 1975 occurred for freight \$481,000, refining \$342,000 and commissions \$52,000. Cost of concentrate production increased by \$2,042,000 over 1975 due to increases in salaries, wages and employee benefits \$1,188,000, power \$477,000, maintenance of pit equipment \$409,000 and grinding and classifying \$184,000.

Municipal and sundry taxes were \$1,029,000, about \$210,000 more than 1975. The main increases were for provincial property taxes \$163,000 and Corporation Capital Tax \$46,000.

The direct operating expenditures were \$2.5 million (11.1%) higher than for 1975 but the tonnage milled was also higher by 1,027,000 tons (10.2%). As a result of this strong production performance, operating costs increased only slightly to \$2.23 per ton milled compared with the average of \$2.215, per ton milled in 1975.

Marketing

The very sharp contraction in demand for most non-ferrous metals and related products experienced in 1975 reversed in the early months of 1976, as buyers began purchasing for immediate needs and to replenish

badly depleted inventories. This resulted in substantially increased shipments during the first half and an accompanying rise in prices. Production also increased anticipating continued expansion but when the recovery slowed in the second half, surpluses developed resulting in rising stocks and falling prices. At year end the outlook was clearly dependent on world-wide stimulation from an expanding U.S. economy.

Copper

Western World Balance — 000 Short Tons

	1974	1975	1976	1977 Estimate
Supply	7,730	6,875	7,370	7,770
Consumption	7,280	6,090	7,140	7,650
Year End Stocks	975	1,760	1,990	2,110

Production cuts at the mines implemented in 1974-75 were largely eliminated in 1976 and production outside North America was at capacity. Despite a 17% increase in consumption, commodity exchange stocks rose 214,000 tons. Concern over interruptions in supply from CIPEC countries was abated and U.S. fabricators purchased significant forward copper for delivery in mid-1977 when there is the possibility of work stoppages affecting North American copper production.

The LME price rose from 53¢ per pound in January to 76¢ at mid-year, then declined to 54¢ in October and was 57¢ at year end. The U.S. producer price rose in three steps from 63¢ to 74¢ in the first half then fell in two stages to 65¢ by December. Late this January the price had moved up to 68¢ per pound.

Brenda's 1976 copper concentrate production was smelted at Noranda and refined at Canadian Copper Refiners Limited. New three-year contracts have been made in Korea and Japan commencing with April production. The copper was sold at the London Metal Exchange price.

Molybdenum

Western World Balance — 000,000 Lbs.

	1974	1975	1976	1977 Estimate
Supply	166	154	162	195
Consumption	180	160	180	200
Year End Stocks	124	118	100	95

Although the basic steel industry was very depressed in 1976, the high strength low alloy and tool sectors were buoyant and molybdenum consumption rose 12%. Production did not expand in proportion and there was a further reduction in stocks.

Prices increased in three stages from U.S. \$2.62 to U.S. \$3.45 per pound molybdenum in concentrate, f.o.b. mine. The outlook remains very favourable with consumption expected to increase approximately 7% in 1977.

Brenda's molybdenum sales were 9.2 million pounds, production 8.0 million and stocks 2.8 million at year end. Production is forecast to rise to 8.6 million pounds in 1977.

Acknowledgement

Today's costs for taxes, wages, pensions and supplies can only be met by greater productivity. To be competitive, an operation must be in the forefront in technology and maintain its plant and equipment in good running order. In this respect, Brenda is a superior operation and it is a privilege for the directors to express their appreciation to Mr. J. B. Knapp, Manager, his staff and employees for their efforts in making it so.

On behalf of the Board,

John A. Hall

President.

Toronto, Ontario,
February 9, 1977.

MINE MANAGERS' REPORT

To the President and Directors:

Herewith follows my report on operations for the year ended December 31, 1976.

Operations		1976	1975
Waste stripped	— Tons	4,543,400	4,508,400
Low-grade ore stockpiled	— Tons	1,219,500	1,791,800
Ore milled	— Tons	11,075,602	10,048,545
Ore milled per calendar day	— Tons	30,261	27,530
Copper grade	— % Cu	0.167	0.188
Copper recovery	— %	86.71	87.90
Molybdenum grade	— % Mo	0.045	0.052
Molybdenum recovery	— %	80.36	80.54
Copper concentrate produced	— Tons	57,160	57,667
Copper concentrate grade	— % Cu	28.08	28.87
Molybdenum concentrate produced	— Tons	7,208	7,543
Molybdenum concentrate grade	— % Mo	55.60	56.07

Open Pit

A total of 17,077,300 tons of material was extracted from the pit including a record 11,075,602 tons of ore delivered to the primary crusher.

A further program of overhaul work on the production shovels was required during the year and at times their low availability hampered the mining operation. Accordingly a 15-cubic yard shovel was purchased and erected in December. Now in service, the machine should assist greatly in the maintenance or improvement of the current operating rates. Productivity, at 815 tons per man shift, was a slight improvement compared to the previous year.

A planned campaign to replace the 700 H.P. engines in the haulage trucks with 1000 H.P. engines was begun and five of twelve have been replaced. A larger, deeper pit has increased uphill haulage and the more powerful engines are improving truck performance significantly.

A modest exploration program will be undertaken in 1977 and nearby areas studied and mapped in a search for additional ore. Current ore reserves stand at 117,687,000 tons grading 0.171% copper and 0.043% molybdenum.

Concentrator

The concentrator operating rate increased to 30,261 tons per calendar day which is approximately 10% higher than the rate achieved for the previous year. A highly successful computer control scheme was brought into operation on all four grinding lines in January 1976 and is chiefly responsible for the improved milling rate. Refinements to the control system, developed through experience and use of the instrument, hold promise for additional modest improvement in the future.

Concentrate grades and metal recoveries were satisfactory but output of metals was slightly down due to the lower grade of ore milled.

Copper concentrate tonnage was smelted and refined at domestic facilities and revenues suffered from high freight costs. Increased interest in copper concentrate is now being exhibited by offshore smelters and export shipments should be resumed during 1977.

Molybdenum concentrate continued to be leached to prime grade specifications and all production was readily sold. Three increases in the price of molybdenum during 1976 resulted in an improved financial performance and the outlook for 1977 continues to be optimistic.

Environment

Reclamation of currently inactive areas around the plant continued with further sections graded and seeded or reinforced as required. Nearly all disturbed areas have received at least an initial treatment and up-grading will continue. More than two hundred small trees were planted with many of them located at the picnic site near the fresh water reservoir.

Personnel

The work force at December 31 consisted of 112 salaried and 330 hourly-rated employees. Relations with our employees and with Local 7618, United Steelworkers of America are generally good and the current Collective Bargaining Agreement will expire on September 11, 1977. Wages, salaries and benefits paid to or on behalf of employees totalled \$8,282,000, an increase of \$1,187,000 over those paid in 1975.

I wish to extend my thanks and appreciation to the staff and all employees for their efforts and contributions throughout the year.

Respectfully submitted,

JOHN B. KNAPP,
Mine Manager.

Peachland, British Columbia,
February 9, 1977.

Distribution of Revenue (Thousands of dollars)

	1970 (9 months)	1971	1972	1973	1974	1975	1976
Revenue — net	\$ 23,635	\$ 27,875	\$ 27,067	\$ 40,958	\$ 41,006	\$ 32,757	\$ 40,910
Wages and benefits paid	3,692	4,259	4,657	4,599	6,264	7,095	8,282
Depreciation and depletion	2,564	3,525	3,667	3,678	4,040	3,983	4,115
Energy, supplies, services and other business costs	9,610	13,991	13,812	12,168	14,744	15,042	15,689
Preproduction expenditures	4,324	5,767	5,767	1,442	—	—	—
Pre-tax earnings	3,445	333	(836)	19,071	15,958	6,637	12,824
Provided for payments to govern- ments	725	670	684	2,336	7,563	4,031	7,334
Earnings (loss) after taxes	2,720	(337)*	(1,520)	16,735	8,395	2,606	5,490
Re-invested in the business	2,720	(337)	(1,520)	16,735	8,395	2,606	4,933
Dividends paid	—	—	—	—	—	—	557
Statistics							
Tons milled (000's)	6,447	8,987	9,503	8,868	9,550	10,049	11,076
Number of employees	391	395	396	405	433	439	442
Gross capital employed (historical \$000's)	72,753	87,960	94,612	92,553	82,052	92,390	94,484

* Before extraordinary item — foreign exchange gain realized on conversion of long term debt — \$1,424,095.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1976 (With comparative figures for 1975 as restated, Note 5)

	1976	1975
Gross value of concentrates produced	\$47,948,045	39,970,283
Less smelter and distribution charges	7,038,332	7,213,748
	40,909,713	32,756,535
Cost of concentrate production	22,512,961	20,471,354
Administration and general expense	1,259,218	1,214,480
Municipal and sundry taxes	1,029,027	818,852
Depreciation and depletion	4,115,125	3,982,613
	28,916,331	26,487,299
Operating income	11,993,382	6,269,236
Interest:		
Long-term	—	126,886
Other	295,839	239,182
Financing expense written off	—	222,905
	295,839	588,973
Deduct other income	97,098	138,214
	198,741	450,759
Income before income and production taxes	11,794,641	5,818,477
Income and production taxes:		
Income and resource taxes	6,305,000	2,300,000
British Columbia mining royalties (Note 5)	—	912,773
	6,305,000	3,212,773
Net earnings for the year	5,489,641	2,605,704
Retained earnings at beginning of year (Note 5)	30,017,365	27,411,661
	35,507,006	30,017,365
Dividends paid	556,660	—
Retained earnings at end of year (Note 4)	\$34,950,346	30,017,365
Earnings per share	\$1.28	.61

See accompanying notes to financial statements.

BRENDA MINES LTD.

BALANCE SHEET — December 31, 1976 (With comparative figures for 1975 as restated, Note 5)

ASSETS		
	1976	1975
Current assets:		
Short-term deposits	\$ 1,830,000	—
Accounts receivable		
(\$10,537,000 due from affiliates, 1975 — \$7,850,561)	11,516,791	8,307,305
Inventories of concentrates and stores	16,379,008	14,473,453
Prepaid expenses	77,584	70,969
Total current assets	29,803,383	22,851,727
Property, buildings and equipment (Note 2)	27,588,795	30,115,594
Other assets	1,004,132	395,000
	<u>\$58,396,310</u>	<u>53,362,321</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1976 and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, we included such tests and other procedures as we considered necessary in the circumstances.

Vancouver, Canada,
January 21, 1977.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current liabilities:		
Bank indebtedness	\$ 142,763	3,803,136
Accounts payable (\$242,000 due to affiliates, 1975 — \$2,029,926)	2,572,677	4,012,752
Income and resource taxes:		
Current	3,213,262	359,754
Deferred	3,519,219	2,510,605
Total current liabilities	9,447,921	10,686,247
Deferred income and resource taxes	5,780,045	4,440,711
Shareholders' equity:		
Capital stock:		
Authorized 5,000,000 shares without nominal or par value; issued 4,282,000 shares	8,217,998	8,217,998
Retained earnings, per accompanying statement (Note 4)	34,950,346	30,017,365
Total shareholders' equity	43,168,344	38,235,363
On behalf of the Board:		
BERNARD O. BRYNELSEN, Director.		
JOHN A. HALL, Director.		
	<u>\$58,396,310</u>	<u>53,362,321</u>

THE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company as of December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1976 (With comparative figures for 1975 as restated, Note 5)

	1976	1975
Working capital at beginning of year	\$12,165,480	8,360,926
Source of funds:		
Operations:		
Net earnings for the year	5,489,641	2,605,704
Add items not involving funds during the year:		
Depreciation, depletion and amortization	4,115,125	4,205,518
Deferred income and resource taxes	1,339,334	(105,945)
Other	15,312	166,782
Total from operations	10,959,412	6,872,059
Reduction in power deposit	250,000	250,000
	<u>11,209,412</u>	<u>7,122,059</u>
Application of funds:		
Purchase of property, buildings and equipment	1,603,639	695,335
Reduction in long-term debt	—	2,622,170
Increase in other assets	859,131	—
Dividend paid	556,660	—
	<u>3,019,430</u>	<u>3,317,505</u>
Increase	<u>8,189,982</u>	<u>3,804,554</u>
Working capital at end of year	<u>\$20,355,462</u>	<u>12,165,480</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. ACCOUNTING POLICIES:

Foreign currencies:

Current assets in foreign currency have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1976.

Inventories:

Copper and molybdenum concentrates are valued at estimated realizable value. Stores are valued at lower of cost or replacement cost.

Depreciation and depletion:

Depreciation of property, buildings and equipment is based on the estimated service lives of the assets calculated using the straight-line method. Additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Mineral claims and leases are being depleted over fifteen years.

Taxes on income:

The company follows tax allocation procedures in recording charges for taxes on income. Taxes not currently payable, as a result of claiming for tax purposes amounts different from those recorded in the accounts, are charged against current earnings. Deferred income and resource taxes, resulting from inventories being valued at cost for tax purposes, are included in current liabilities.

2. DETAILS OF PROPERTY, BUILDINGS AND EQUIPMENT, AT COST, LESS ACCUMULATED DEPRECIATION AND DEPLETION ARE AS FOLLOWS:

	1976	1975
Buildings, equipment and related facilities	\$43,895,576	43,636,235
Mobile equipment	8,122,064	6,937,053
Residential land and buildings	305,714	305,714
	<u>52,323,354</u>	<u>50,879,002</u>
Less accumulated depreciation	24,924,625	20,976,536
	<u>27,398,729</u>	<u>29,902,466</u>
Mineral claims and leases, at cost less depletion	190,066	213,128
	<u>\$27,588,795</u>	<u>30,115,594</u>

3. ADMINISTRATION EXPENSE:

The aggregate direct remuneration paid to the directors and senior officers of the company, as defined by the B.C. Companies Act, amounted to \$166,675 (1975 — \$146,813).

4. ANTI-INFLATION LEGISLATION:

The Company is subject to, and believes it has complied with, controls on prices, profits, employee compensation and shareholder dividends under the Federal Government's Anti-Inflation program which is presently scheduled to be in force until December 31, 1978.

Dividends to the Company's common shareholders during the year ending October 13, 1977 may not exceed 49¢ per share, of which 13¢ per share was paid in December, 1976.

5. BRITISH COLUMBIA MINING ROYALTIES:

Mining royalties for the year 1975, previously reported as \$1,500,000, have been restated to reflect the reduction of royalties of \$587,227, accrued on inventories of concentrates at December 31, 1975 and subsequently paid, but which are now recoverable under the Mineral Resources Tax Act, which came into effect during the year. Accordingly, the retained earnings at December 31, 1975 have been increased from \$29,430,138 to \$30,017,365 to reflect the revised earnings for 1975, increased by the \$587,227 to \$2,605,704.

